ECONOMIC OUTLOOK

AND

REVENUE ESTIMATES

FOR

MICHIGAN

FY 2009-10
AND
FY 2010-11

HOUSE FISCAL AGENCY

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This report presents final General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) final revenue for fiscal year (FY) 2008-09, and revised revenue estimates for FY 2009-10 and FY 2010-11. Estimates reported herein will be presented to the Consensus Revenue Estimating Conference on May 21, 2010, and will be used to facilitate the consensus estimating process.

This report includes HFA analyses of important factors that will affect state and national economies through the year 2011, and estimates of the Countercyclical Budget Stabilization Fund, state compliance with the Constitutional State Revenue Limit, and GF/GP and SAF year-end balances.

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FORECAST SUMMARY

The national economy has improved at a moderate, but healthy pace following the great recession. More encouragingly, national non-farm employment increased by 290,000 in April following an increase of 230,000 in March. The April employment gain was the best reading since March 2006. Job gains were widespread and occurred in construction, manufacturing, business and professional services, education and health services, leisure and hospitality, and federal government (due to temporary hiring of census workers).

Gross Domestic Product or GDP grew 3.2% in the first quarter of 2010—down from the 5.6% pace in the fourth quarter of 2009. The main contributors to the first quarter growth were consumer spending and inventories. Business spending on equipment and software also posted a strong increase.

The federal stimulus package added about 0.8 percentage points to U.S. economic activity (GDP) in CY 2009 and is estimated to add 1.4 percentage points in CY 2010. However, the impact has already peaked and will be declining in the coming quarters.

The national expansion is on track, but the fading impact of the federal stimulus, continued tight credit conditions, and the European debt crisis will present ongoing challenges.

Michigan's economy and state revenue will be significantly affected by the strength of the national recovery. Michigan’s wage and salary employment has trended downward since mid-2000; more recently the job losses have lessened. Michigan non-farm employment decreased by 9,500 in March after a decrease of 15,700 jobs in February.

U. S. Forecast

Real GDP growth—after decreasing 2.4% in CY 2009—is forecast to increase 3.2% in CY 2010, and grow 2.8% in CY 2011.

Light vehicle sales totaled 10.4 million units in CY 2009 and are forecast to increase to 11.8 million units in CY 2010 before rising to 13.4 million units in CY 2011.

The import share of light vehicles is forecast to be 23.8% in CY 2010 and 24.4% in CY 2011.

The national unemployment rate was 9.3% in CY 2009; it is expected to increase to 9.7% in CY 2010 then drop to 9.1% in CY 2011.

Inflation, as measured by the Consumer Price Index (CPI), is forecast to increase 2.0% in CY 2010 and 1.8% in CY 2011.

Interest rates on three-month T-bills averaged 0.2% in CY 2009; rates are forecast to average 0.2% in CY 2010 and 0.9% in CY 2011.

Michigan Forecast

Michigan personal income decreased 3.0% in CY 2009; it is forecast to increase 1.1% in CY 2010 and 2.7% in CY 2011.

Michigan's unemployment rate was 13.6% in CY 2009; it is forecast to increase to 14.1% in CY 2010 and fall to 13.5% in CY 2011. The unemployment rate is forecast to peak at 14.4% in the third quarter of 2009.

Inflation (as measured by the Detroit Consumer Price Index) is forecast to increase 1.6% in CY 2010 and 1.5% in CY 2011.

State Revenue

Baseline revenue does not include the impact of partial-year policy changes or certain policy changes that have recently occurred. Baseline estimates are comparable across fiscal years and demonstrate the changes to state revenue that are driven by changes in the economy. The final total baseline GF/GP and SAF revenue was $18.0 billion in FY 2008-09; it is forecast to decrease 3.7% to $17.3 billion in FY 2009-10 and increase 2.5% to $17.8 billion in FY 2010-11.

Net revenue captures the effects of all policy changes and represents resources available. Final total net GF/GP and SAF revenue was $18.3 billion in FY 2008-09; it is forecast to decrease $947.3 million or 5.2% in FY 2009-10. Total net GF/GP and SAF revenue for FY 2010-11 is forecast to be $17.7 billion—an increase of $383.0 million or 2.2%.

Table 1 reports GF/GP and SAF revenue in terms of baseline and actual revenue. Final FY 2008-09 revenue, and the recommended revisions to estimates for FY 2009-10 and FY 2010-11 are reported in **Table 2 and Table 3**.

State Revenue Limit

Total state revenue was below the state revenue limit by $7.7 billion in FY 2008-09; it is estimated to be under the limit by $8.9 billion in FY 2009-10 and $7.3 billion in FY 2010-11.

Fund Balances
The year-end GF/GP balance was $176.7 million for FY 2008-09.

The year-end SAF balance was $238.2 million for FY 2008-09.

The year-end Countercyclical Budget Stabilization Fund balance is $2.2 million for FY 2008-09; it is estimated to be $2.3 million for FY 2009-10 and $2.4 million for FY 2010-11.

Table 1
HFA REVENUE ESTIMATES
(Millions of Dollars)

	Final FY 2008-09	HFA Estimate FY 2009-10	HFA Estimate FY 2010-11
Baseline GF/GP	$7,097.1	$6,642.2	$7,066.5
Baseline SAF	10,896.3	10,689.9	10,695.7
TOTAL BASELINE	**$17,993.4**	**$17,332.1**	**$17,762.2**
Net GF/GP	$7,365.6	$6,650.2	$7,011.3
Net SAF	10,922.2	10,690.3	10,712.3
TOTAL ACTUAL	**$18,287.8**	**$17,340.5**	**$17,723.5**

Table 2
FY 2009-10 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	January 2010 Consensus	May 2010 Recommendation	Recommended Revision
Net GF/GP	$6,898.4	$6,650.2	($248.2)
Net SAF	10,458.1	10,690.3	232.2
TOTAL ACTUAL	**$17,356.5**	**$17,340.5**	**($16.0)**

Table 3
FY 2010-11 HFA RECOMMENDED REVISIONS
(Millions of Dollars)

	January 2010 Consensus	May 2010 Recommendation	Recommended Revision
Net GF/GP	$6,968.4	$7,011.3	$42.9
Net SAF	10,480.5	10,712.3	231.8
TOTAL ACTUAL	**$17,448.9**	**$17,723.5**	**$274.6**

ECONOMIC REVIEW AND FORECAST

This section presents the economic forecast used by the House Fiscal Agency to produce its revenue forecasts for FY 2009-10 and FY 2010-11.

The eight-month national recession that ended in November 2001 was followed by weak economic growth throughout CY 2002 and the early part of CY 2003. As national economic growth improved, so did employment.

Job growth at the national level began to improve during the latter half of CY 2003, and continued its upward trend through December 2007—at which point the national economy officially entered a recession. Between December 2007 and October 2009, employment fell for 22 consecutive months.

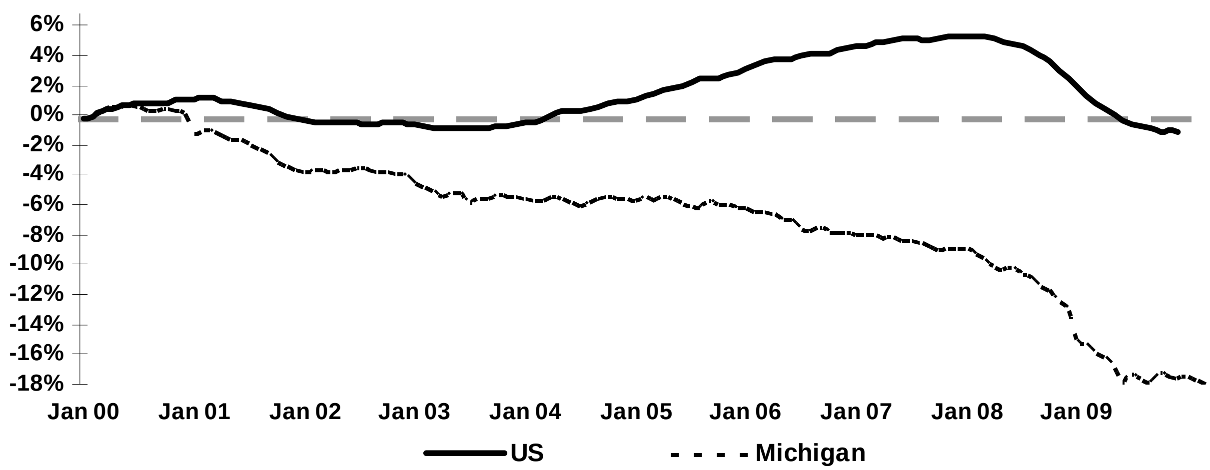
Total Non-Farm Employment

Figure 1 shows the monthly percent change in total non-farm employment for both the U.S. and Michigan from January 2000 through March 2010.

Figure 1

Total Non-Farm Employment

Percent Change From January 20000 Through March 2010



U.S. Non-Farm Employment

After U.S. employment peaked in February 2001, it began a long slide that did not end until August 2003. During this 30-month period, the national economy lost more than 2.7 million jobs—about 91,800 jobs per month on average. In the 52 months between September 2003 and December 2007 more than 8.1 million jobs were added, but this growth was followed by a 22-month span of job losses during which non-farm employment fell by almost 8.4 million. However, there are signs that the economy is again improving as employment has risen in each of the last four months. The April 2010 job gain of 290,000 workers was the largest monthly increase since March 2006, and during the first four months of 2010 more than 570,000 jobs have been added.

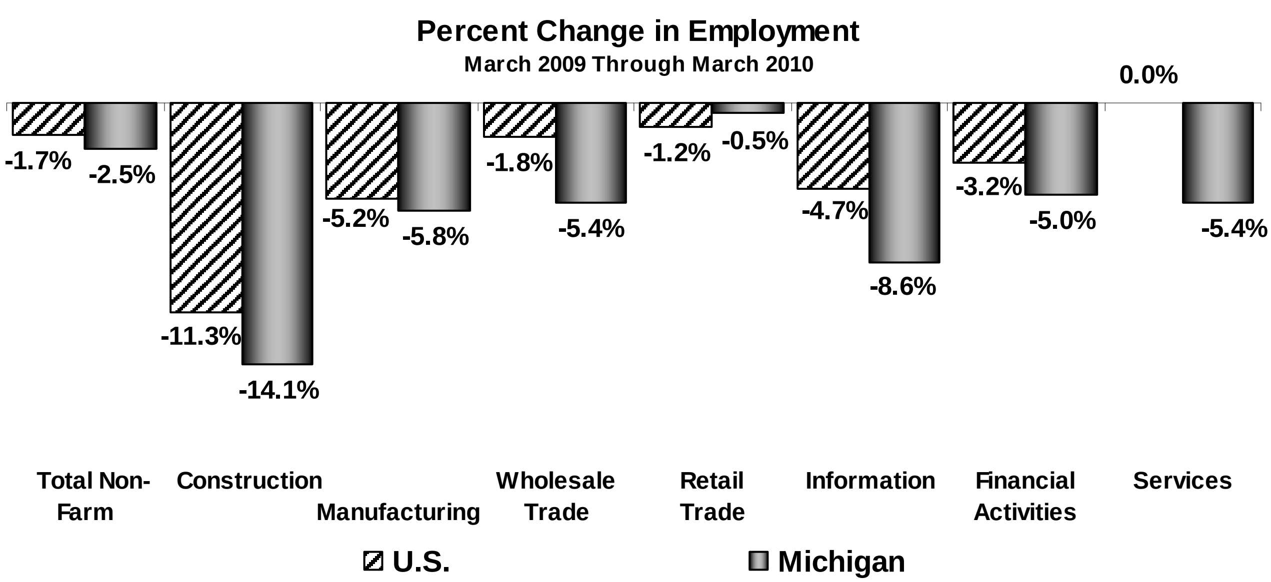
Michigan Non-Farm Employment

Economic conditions in Michigan have been far less optimistic than those at the national level. Employment in Michigan peaked in June 2000, a full eight months before the national level peaked in February 2001. Following that June 2000 peak, employment in Michigan dropped steadily until July 2003, resulting in a loss of more than 314,000 jobs—a 6.7% decline. For the next two years, employment in Michigan fluctuated around the July 2003 level, with monthly job gains offset by subsequent monthly job losses. Since 2005, job losses have accelerated; the average annual job loss was 105,200 in CY 2008 and 285,400 in CY2009. During the first three months of CY 2010, an additional 18,800 jobs have been lost.

U.S. and Michigan Employment

Figure 2 shows U.S. and Michigan percent change in employment between March 2009 and March 2010 for all private workers in several important sectors of the economy. Continuing lackluster economic conditions are evident as the U.S. lost more than 2.2 million jobs over this period while employment in Michigan fell by more than 95,400 jobs.

Figure 2



U.S. Employment
From March 2009 through March 2010, the U.S. experienced job losses in all sectors. The construction, manufacturing, and financial activities sectors were especially hard hit—losing 674,000, 628,000, and 250,400 jobs, respectively. The manufacturing sector has been contracting for the past several years while job losses in construction are a result of the continuing instability in the housing sector. More generally, losses in financial activities reflect the overall economic downturn.

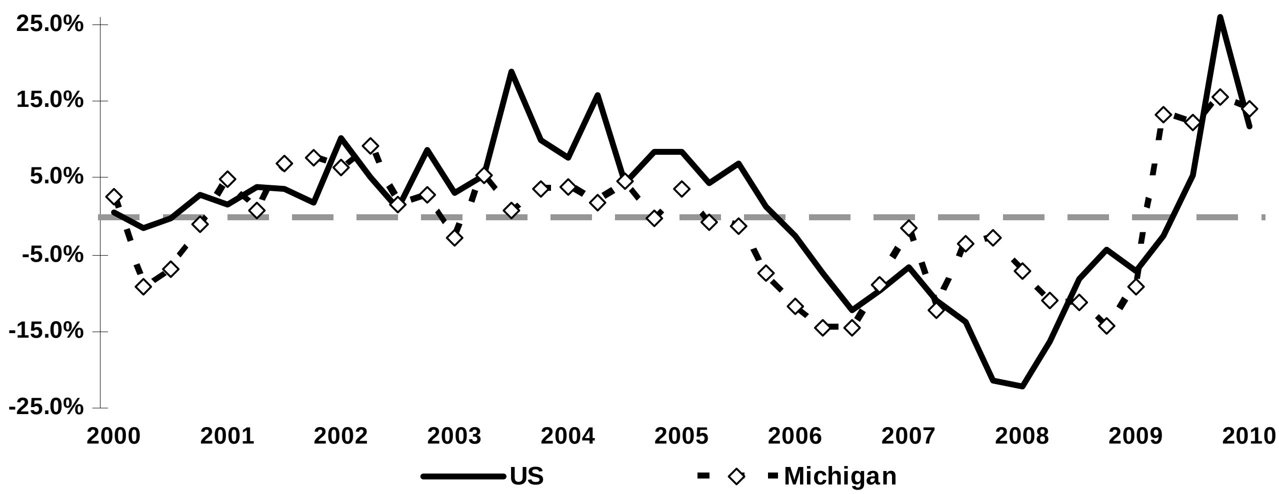
Michigan Employment
Job losses in Michigan over the past year were also concentrated in the construction, manufacturing, and financial activities sectors—although the service and information sectors also experienced large declines. Michigan's manufacturing employment losses accounted for 4.5% of the total nationwide decline in manufacturing employment over the past 12 months.

U.S. and Michigan Existing Home Sales

Figure 3 shows the quarterly percent change in sales of existing homes for the U.S. and Michigan relative to the same quarter the year before.

Figure 3

Total Existing Home Sales
2000:1 Through 2010:1



U.S. Existing Home Sales
The U.S. housing market continued to flourish during the first half of the decade, but turned downward in late 2005 as home sales began to falter. Home sales continued to drop at an accelerating rate throughout 2007 as the full impact of the collapse of the housing market spread through the economy, and the downturn continued through 2008—albeit at a diminished rate. The apparent robust improvement in 2009 is somewhat of an illusion because the growth is measured against the declining sales reported throughout 2008. By the fourth quarter of 2009, existing home sales stood at 5.97 million, 1.24 million below the peak recorded during the third quarter of 2005.

Michigan Existing Home Sales

Despite a dip in Michigan's housing market in the early part of this decade, sales of existing homes—for the most part—followed a path similar to that of the U.S. as a whole through 2004. Existing home sales in Michigan reached a peak during the first quarter of 2005, but then underwent a steep decline through late 2006, and continued to fall through the end of 2008. Although existing home sales did increase during 2009, the degree of improvement is likely overstated for the same reasons as for the national housing market. Existing home sales in Michigan during the fourth quarter of 2009 measured 173,200, more than 43,000 below the 2005 peak.

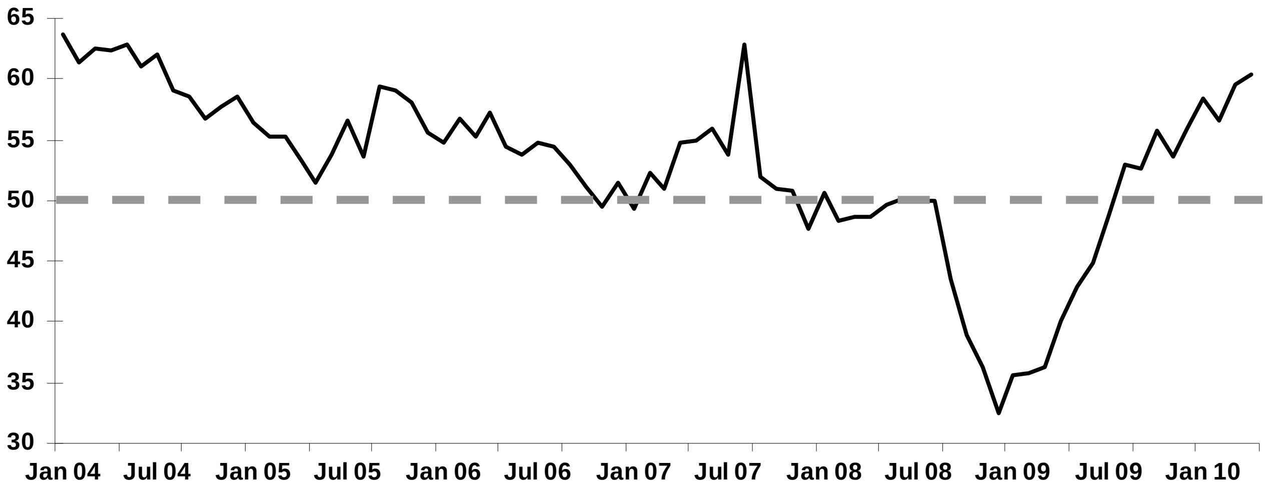
Institute for Supply Management (ISM) Index

Figure 4 shows the ISM Index, a composite index of five economic indicators used to measure manufacturing economic vitality beginning January 2004. An index number above 50 indicates a growing manufacturing sector, a number below 50 suggests that the manufacturing sector is contracting, and a number below 42.7 indicates that the economy as a whole is contracting.

Figure 4

Institute for Supply Management (ISM) Index

January 2004 Through April 2010



The ISM Index began January 2004 at a 20-year high of 63.3; this was followed by a 16-month slide that saw the index decline to 51.4 in May 2005. The ISM Index rose in three of the next four months—reaching a level of 59.4 in September 2005—before beginning a four-month decline to 54.8 in January 2006. For the next 30 months, the index generally remained between 50 and 55, but starting in July 2008, it dropped for six consecutive months and reached a 28-year low of 32.4 in December. Since then, the ISM Index has risen in 13 of the past 16 months. The current level of 60.4 is the highest reading since the one-month spike in August 2007.

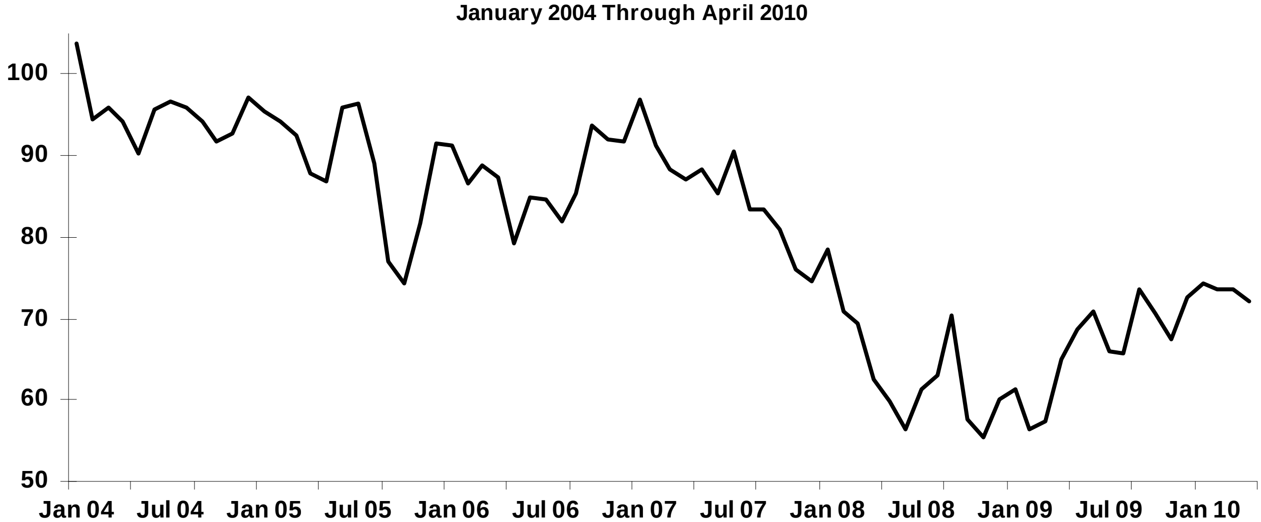
Index of Consumer Sentiment

Consumer sentiment can be a strong motivator of personal consumption expenditures, which comprise almost two-thirds of GDP. **Figure 5** shows the University of Michigan Index of Consumer Sentiment beginning January 2004.

Although the Index of Consumer Sentiment began January 2004 at a level over 100 for the first time in more than three years, it dropped in February and remained in the low- to mid-90s before ending 2004 with two consecutive monthly increases. Following this brief uptick, consumer sentiment declined in each of the next five months due, in part, to concerns about high gas prices and the possibility that the economy might be weakening.

Figure 5

University of Michigan Index of Consumer Sentiment
January 2004 Through April 2010

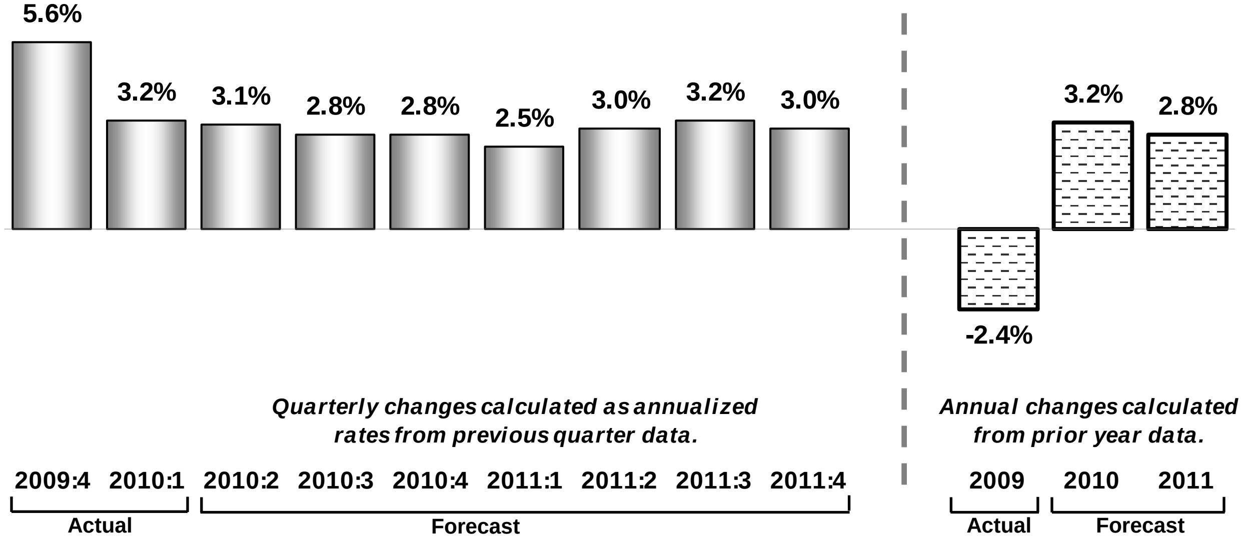


In the wake of hurricanes Katrina and Rita in 2005, the Index of Consumer Sentiment plunged to 72.4 in October, rose to 91.5 in December, and then dropped in six of the first eight months of 2006 as consumers expressed concerns over rising gas prices and interest rates. After reaching a low of 82.0 in August, the index concluded 2006 at 91.7. The Index of Consumer Sentiment declined steadily during 2007 (finishing 2007 at 74.5), and by November 2008 it stood at 55.3—the lowest level in almost 28 years. Since then, the index has generally trended upward in a seesaw pattern, reaching a two-year high of 74.4 in January 2010.

Real GDP

Figure 6 shows the estimated percent change in U.S. Real GDP for CY 2009, CY 2010, and CY 2011.

Figure 6
Percent Change in U.S. Real GDP



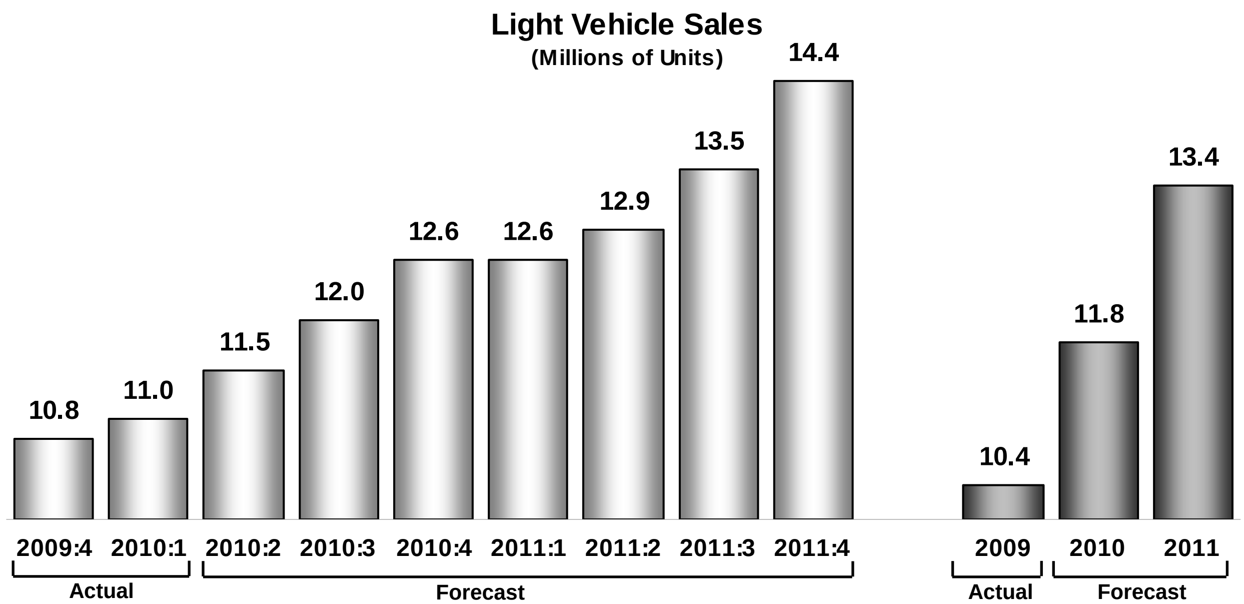
After increasing 3.2% during the first quarter of 2010, real GDP is anticipated to grow by 3.1% in the second quarter. Real GDP growth, which was -2.4% in CY 2009, is forecast to be 3.2% in CY 2010 and 2.8% in CY 2011.

GDP growth in CY 2009 was negative primarily due to a decline in personal consumption and residential investment, but was bolstered somewhat by a positive balance in net exports. Both personal consumption and investment are forecast to resume growing in CY 2010. Personal consumption is forecast to increase by 2.4% in CY 2010 and 2.0% in CY 2011 while gross private domestic investment is forecast to grow 15.4% in CY 2010 and 14.0% in CY 2011.

Light Vehicle Sales

Figure 7 shows actual light vehicle sales for CY 2009, and estimated sales for CY 2010 and CY 2011.

Figure 7



Sales of light motor vehicles dropped from 13.2 million units in CY 2008 to 10.4 million units in CY 2009, but are expected to increase to 11.8 million units in CY 2010 and 13.4 million units in CY 2011.

While there has been a shift over the past few years in vehicle sales away from light trucks and toward cars, that trend is expected to reverse itself. Light truck sales, which accounted for 47.6% of total light vehicle sales in CY 2009, are expected to increase to 48.2% in CY 2010 before dropping slightly to 48.1% in CY 2011.

The import share of total light vehicle sales was 26.2% in CY 2009; it is forecast to decrease to 23.8% in CY 2010 before increasing to 24.4% in CY 2011.

Inflation

U.S. Inflation

Input prices (e.g., wages and import prices) have remained moderate and have held down production costs. Crude oil and natural gas prices, which have experienced volatile price fluctuations over the past several years, will continue to impact almost all sectors of the economy.

Benchmark West Texas Intermediate crude—which averaged about $100 per barrel in CY 2008—began 2009 at just over $41 per barrel, and rose steadily before reaching a high of $78 in November. Although there is always concern over the stability of the oil supply, world demand is expected to increase as economic growth reemerges. It is anticipated that after averaging almost $62 per barrel in 2009, oil prices will increase during the forecast period to $81 per barrel during CY 2010 and $86 per barrel in CY 2011.

The annual rate of inflation, as measured by the percentage change in the U.S. Consumer Price Index-Urban (CPI-U), was -0.4% in CY 2009; it is expected to increase by 2.0% in CY 2010 and 1.8% in CY 2011.

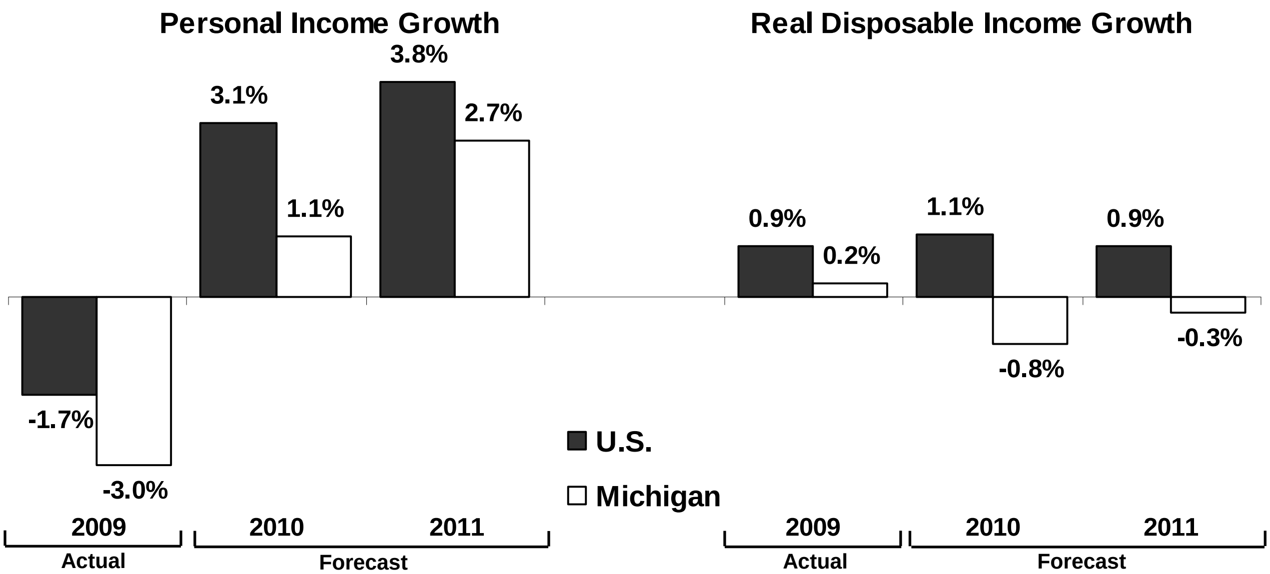
Michigan Inflation

The cost of living in Michigan is measured by the Detroit Consumer Price Index for Urban Consumers (Detroit CPI-U). The average inflation rate for Michigan was -0.6% in CY 2009, and inflation in Michigan should remain relatively low throughout the forecast period. The Detroit CPI-U is expected to increase 1.6% in CY 2010 and 1.5% in CY 2011.

Income Growth

Figure 8 shows personal income growth and real disposable income growth for both the U.S. and Michigan.

Figure 8



U.S. Income Growth

Total U.S. personal income fell 1.7% in CY 2009. Personal income is forecast to increase 3.1% in CY 2010 and 3.8% in CY 2011.

Despite the negative inflation rate in CY 2009, real disposable income grew at a modest 0.9% rate in CY 2009. U.S. real disposable income is forecast to grow 1.1% in CY 2010 and 0.9% in CY 2011.

Michigan Income Growth

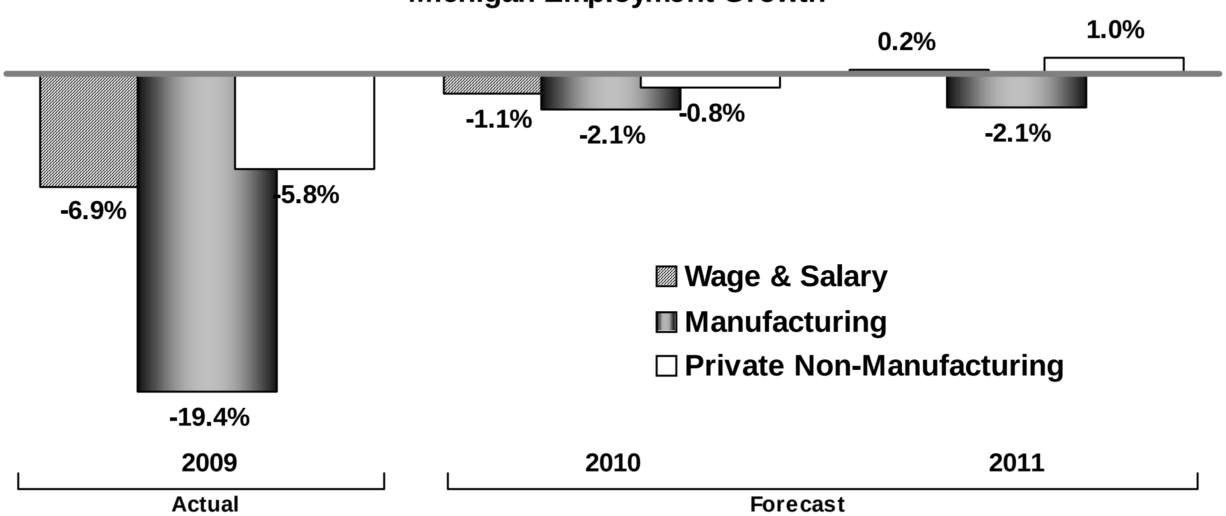
Michigan's total state personal income growth fell by 3.0% in CY 2009. Michigan personal income is forecast to grow 1.1% in CY 2010 and 2.7% in CY 2011.

Michigan real disposable income increased 0.2% in CY 2009; even though inflation rates are expected to remain low, it is forecast to decrease 0.8% in CY 2010 and 0.3% in CY 2011.

Employment

Figure 9 shows Michigan wage and salary, manufacturing, and private non-manufacturing employment growth.

Figure 9
Michigan Employment Growth



U.S. Employment

Nationally, total non-farm employment declined by 4.3% as the economy experienced average monthly losses in excess of 395,000 during 2009. During the first four months of 2010 the economy has posted average monthly job gains of 143,000, and although employment gains are expected throughout 2010, average annual employment is projected to decrease by 0.2%. This atypical result stems from the large job losses that occurred throughout 2009. Because the average annual employment gains expected in 2010 will not be sufficient to offset the losses from 2009, the net impact is that the average annual employment level in 2010 is expected to be slightly below the 2009 annual average despite the job growth that is anticipated. Continued increases in job growth are expected as employment is forecast to increase 1.8% in CY 2011.

Michigan Employment

The Michigan economy continues to endure a weak labor market. Average annual Michigan wage and salary employment declined by 285,400 workers in CY 2009; it is estimated to decline by almost 44,100 workers in CY 2010 and before increasing by 8,200 workers in CY 2011. The forecast calls for continued quarterly job losses through fourth quarter CY 2010 before job growth takes hold in the first quarter of CY 2011.

Average annual Michigan wage and salary employment fell 6.9% in CY 2009; it is forecast to fall 1.1% in CY 2010 before growing 0.2% in CY 2011. Over the past 25 years, Michigan wage and salary employment has grown at an average annual rate of about 0.55%.

Michigan average annual manufacturing employment dropped 19.4% in CY 2009, primarily due to a 26.3% decline in motor vehicle employment; it is forecast to decrease 2.1% in both CY 2010 and CY 2011. Although the most significant employment declines continue to be concentrated in the motor vehicle industry, employment declines also appear throughout the entire manufacturing sector.

Average annual private non-manufacturing employment in Michigan fell 5.8% in CY 2009; it is expected to decline 0.8% in CY 2010 before increasing 1.0% in CY 2011.

Unemployment

U.S. Unemployment

As of December 2007, total non-farm employment had increased for 52 consecutive months, but monthly job losses for each of the next 22 months increased the unemployment rate. Recent job growth has helped to reduce the unemployment rate, although it is still at historically high levels.

The U.S. unemployment rate was 9.3% in CY 2009; it is forecast to rise to 9.7% in CY 2010 and drop to 9.1% in CY 2011.

Michigan Unemployment

Employment in Michigan remains a major concern; it has fallen during each of the past eight years, and it is forecast to continue its decline throughout 2010 before beginning to grow in 2011. Although decreases in the labor force and increases in the number of unemployed workers are expected to continue, the unemployment rate is expected to decrease over the forecast horizon from the third quarter 2009 peak of 14.4%.

Michigan's unemployment rate was 13.6% in CY 2009; it is expected to increase to 14.1% in CY 2010, and then drop to 13.5% in CY 2011.

Table 4
ECONOMIC FORECAST VARIABLES

	Calendar 2008 Actual	Calendar 2009 Actual	% Change From Prior Year	Calendar 2010 Estimated	% Change From Prior Year	Calendar 2011 Estimated	% Change From Prior Year
United States							
Real Gross Domestic Product (Billions of 2005 dollars)	$13,312.2	$12,987.4	-2.4%	$13,400.7	3.2%	$13,780.5	2.8%
Implicit Price Deflator GDP (2005 = 100)	108.5	109.8	1.2%	110.7	0.8%	112.2	1.4%
Consumer Price Index (1982-84 = 100)	215.3	214.6	-0.4%	218.9	2.0%	222.8	1.8%
Consumer Price Index (FY) (1982-84 = 100)	214.5	213.8	-0.3%	218.1	2.0%	221.7	1.6%
Personal Consumption Deflator (2005 = 100)	109.0	109.2	0.2%	111.1	1.7%	112.6	1.4%
3-month Treasury Bills Interest Rate (Percent)	1.4%	0.2%		0.2%		0.9%	
Aaa Corporate Bonds Interest Rate (Percent)	5.7%	5.3%		5.3%		5.2%	
Non-Farm Employment (Millions)	136.8	130.9	-4.3%	130.6	-0.2%	133.0	1.8%
Unemployment Rate—Civilian (Percent)	5.8%	9.3%		9.7%		9.1%	
Light Vehicle Sales (Millions of units)	13.2	10.4	-21.6%	11.8	13.8%	13.4	13.4%
Passenger Car Sales (Millions of units)	6.8	5.5	-19.9%	6.1	12.4%	7.0	13.5%
Light Truck Sales (Millions of units)	6.4	4.9	-22.8%	5.7	15.2%	6.4	13.1%
Import Share of Light Vehicles (Percent)	25.6%	26.2%		23.8%		24.4%	
Personal Income (Billions of current dollars)	$12,238.8	$12,026.1	-1.7%	$12,393.5	3.1%	$12,864.7	3.8%
Real Disposable Income (Billions of 2005 dollars)	$9,911.1	$9,999.2	0.9%	$10,111.2	1.1%	$10,200.2	0.9%
Michigan							
Wage and Salary Employment (Thousands)	4,162.4	3,876.9	-6.9%	3,832.9	-1.1%	3,841.1	0.2%
Transportation Equipment Employment (Thousands)	171.5	126.3	-26.3%	125.0	-1.0%	116.0	-7.2%
Unemployment Rate (Percent)	8.4%	13.6%		14.1%		13.5%	
Personal Income (Millions of current dollars)	$349,612	$339,219	-3.0%	$342,876	1.1%	$352,285	2.7%
Real Personal Income (Millions of 1982-84 dollars)	$170,730	$166,733	-2.3%	$165,861	-0.5%	$167,855	1.2%
Real Disposable Income (Millions of 1982-84 dollars)	$151,668	$152,047	0.2%	$150,808	-0.8%	$150,380	-0.3%
Wage and Salary Income (Millions of current dollars)	$186,197	$170,376	-8.5%	$169,720	-0.4%	$173,784	2.4%
Detroit Consumer Price Index (1982-84 = 100)	204.8	203.5	-0.6%	206.7	1.6%	209.9	1.5%
Detroit CPI (FY) (1982-84 = 100)	204.8	202.6	-1.0%	206.1	1.7%	209.0	1.4%

RISKS AND UNCERTAINTIES

An economic forecast is based on the best information available at the time the forecast is prepared. Because information and foresight are not perfect, risks and uncertainties are inherent in any forecast. Key risks in this forecast stem predominantly from uncertainties surrounding the European debt crisis, personal consumption, oil prices, and Michigan's motor vehicle industry.

European Debt Crisis

Over the last few weeks, concerns about the level of contagion surrounding the Greek/European debt crisis have elevated drastically. This has occurred despite the announcement of a $1 trillion bailout plan for Europe. Many European countries which were heading out of recession, may now face weaker economies moving forward. The weakening growth from the European countries and a rising value of the U.S. dollar relative to the Euro, will make U.S. exports less attractive.

The U.S. economy has momentum that developed over the last few months to continue the expansion. However, the affects of the crisis on U.S. financial markets may also unnerve households and dampen consumer spending and the overall economy.

Personal Consumption

Personal consumption expenditures comprise almost two-thirds of total economic activity. The consumer, which will now have to offset the lessening affects of the federal stimulus, is key to the strength of the expansion. Consumers are still weighed down with high debt burdens, depleted wealth, and tight credit conditions. Consumption grew 3.6% in the first quarter of 2010, which was the strongest gain in three years, primarily through use of savings. Income and employment gains will be needed to sustain consumption growth in the future.

After posting gains in the last four months, national non-farm payroll employment is forecast to continue monthly gains throughout the forecast horizon. Consumption is forecast to increase 2.4% in CY 2010, then slow to 2.0% in CY 2011.

Oil Prices

The average West Texas Intermediate crude oil price was $79 per barrel in the first quarter of 2010—$36 per barrel higher than the same year-ago quarter. Oil prices are forecast to average $81 per barrel throughout CY 2010 and $86 per barrel in CY 2011.

Oil prices affect the economy primarily through disposable income allocation—because more income is used for energy-related goods, less is used for all other items. Oil prices could fall below the estimated level and cause economic growth to be stronger than anticipated, or they may be higher than estimated—resulting in economic growth below the forecasted level.

Michigan's Motor Vehicle Industry

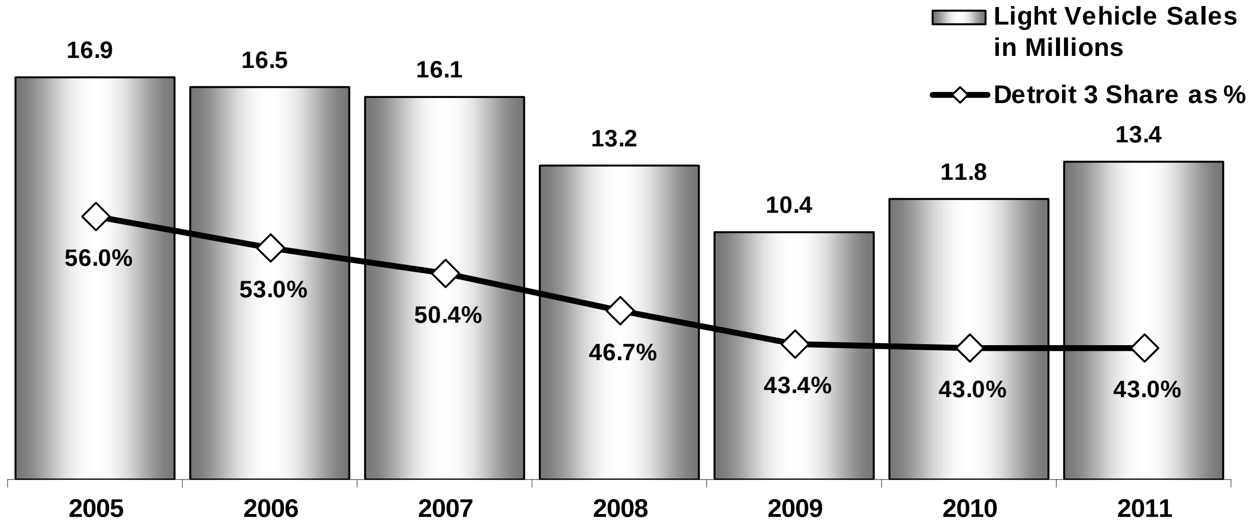
The level and composition of light motor vehicle sales is a key component of Michigan's economy. Light motor vehicle sales totaled 13.2 million units in CY 2008 and 10.4 million units in CY 2009. Light motor vehicle sales are forecast to be 11.8 million units in CY 2010, then increase to 13.4 million units in CY 2011 as the national expansion continues.

Imports and transplants (vehicles with a foreign nameplate that are made in the U.S.) have steadily gained in market share over the past several years. As shown in **Figure 10**, the market share of the Detroit 3 auto manufacturers declined to 43.4% in CY 2009.

The extent to which the domestic nameplates can retain market share will have a direct impact on Michigan's economy. This forecast assumes that the Detroit 3 market share will decline to 43.0% in CY 2010 and stabilize at that level in CY 2011. In CY 2004, the Detroit 3 sold 9.8 million vehicles; it is expected that the Detroit 3 will sell 5.1 million vehicles in CY 2010 and 5.8 million units in CY 2011.

After a decline of 26.3% in CY 2009, Michigan transportation equipment employment is forecast to decline 1.0% in CY 2010 and 7.2% in CY 2011. The CY 2011 estimated level of transportation equipment employment of 116,000 is 34% of the 346,000 peak in CY 2000. If the Michigan-produced market share of motor vehicles is greater or less than anticipated, Michigan's economy and revenue growth will be higher or lower than estimated.

Figure 10
Detroit 3 Share of Light Vehicle Sales



GF / GP AND SAF REVENUE

Revenue estimates are based on the economic performance of the components of national and state economies discussed in the previous section. This section explains the House Fiscal Agency's May 2010 estimates for GF/GP (**Table 5**) and SAF (**Table 6**) revenue, the estimated year-end balances for the major funds and the budget stabilization fund, and the state revenue limit calculation.

GF/GP Revenue by Source

GF/GP Tax Revenue

GF/GP tax revenue totaled $6,979.3 million in FY 2008-09; it is estimated to be $6,257.4 million, a decrease of $721.9 million or 10.3%, in FY 2009-10, and $6,649.5 million, an increase of $392.1 million or 6.3%, in FY 2010-11.

Total Net GF/GP Revenue

Net GF/GP revenue, which includes tax and non-tax revenue, is available for expenditure each year. Net GF/GP revenue was $7,365.8 million in FY 2008-09; it is forecast to be $6,650.2 million, a decrease of $715.6 million or 9.7%, in FY 2009-10, and $7,011.3 million, an increase of $361.1 million or 5.4%, in FY 2010-11.

SAF Revenue by Source

Net SAF Revenue

Net SAF revenue was $10,922.1 million in FY 2008-09; it is forecast to be $10,690.3 million, a decrease of $231.7 million or 2.1%, in FY 2009-10, and $10,712.3 million, an increase of $21.9 million or 0.2%, in FY 2010-11.

Total Net SAF Revenue

Total net SAF revenue includes net SAF revenue and adjustments (federal aid, but not federal stimulus revenue and the beginning balance). Total net SAF revenue totaled $12,672.8 million in FY 2008-09; it is forecast to be $12,505.3 million, a decrease of $167.5 million or 1.3%, in FY 2009-10, and $12,369.8 million, a decrease of $135.5 million or 1.1%, in FY 2010-11.

Table 5

GF/GP REVENUE ESTIMATES
(Millions of Dollars)

	Final FY 2008-09	FY 2009-10	FY 2010-11	Change From FY 2009-10 to FY 2010-11	
Income Tax	$3,959.1	$3,552.7	$3,644.3	$91.6	2.6%
Sales and Use Taxes	748.2	838.6	848.2	9.6	1.1%
MBT/SBT/Insurance Taxes	1,815.8	1,445.6	1,740.1	294.5	20.4%
Other Taxes	456.1	420.4	416.8	(3.6)	−0.9%
GF/GP Tax Revenue	**$6,979.3**	**$6,257.4**	**$6,649.5**	**$392.1**	**6.3%**
Non-Tax Revenue	386.5	392.8	361.8	(31.0)	−7.9%
Total Net GF/GP Revenue	**$7,365.8**	**$6,650.2**	**$7,011.3**	**$361.1**	**5.4%**

NOTE: Numbers may not add due to rounding.

Table 6

SCHOOL AID FUND REVENUE ESTIMATES
(Millions of Dollars)

	Final FY 2008-09	FY 2009-10	FY 2010-11	Change From FY 2009-10 to FY 2010-11	
Sales and Use Tax	$4,793.2	$4,839.0	$4,888.5	$49.5	1.0%
Income Tax Earmark	1,895.3	1,813.1	1,845.1	32.0	1.8%
State Education Tax	2,040.6	1,875.0	1,800.0	(75.0)	−4.0%
Lottery/Casino Wagering	832.6	827.7	844.2	16.5	2.0%
MBT	729.0	726.7	741.2	14.5	2.0%
Tobacco Taxes	410.4	384.7	368.7	(16.0)	−4.2%
Real Estate Transfer Tax	125.3	122.0	130.0	8.0	6.6%
Other Taxes	95.7	102.2	94.6	(7.6)	−7.4%
Net SAF Revenue	**$10,922.1**	**$10,690.3**	**$10,712.3**	**$21.9**	**0.2%**
Adjustments	1,750.7	1,815.0	1,657.5	(157.5)	−8.7%
Total Net SAF Revenue	**$12,672.8**	**$12,505.3**	**$12,369.8**	**($135.5)**	**−1.1%**

NOTE: Numbers may not add due to rounding.

HFA Estimates of Year-End Balances

Table 7 reports House Fiscal Agency estimates of year-end balances for GF/GP, the SAF, and the BSF. Final year-end balances are reported for FY 2008-09 and estimates for FY 2009-10 are based on year-to-date appropriations and HFA revenue estimates.

Table 7
YEAR-END BALANCE ESTIMATES
(Millions of Dollars)

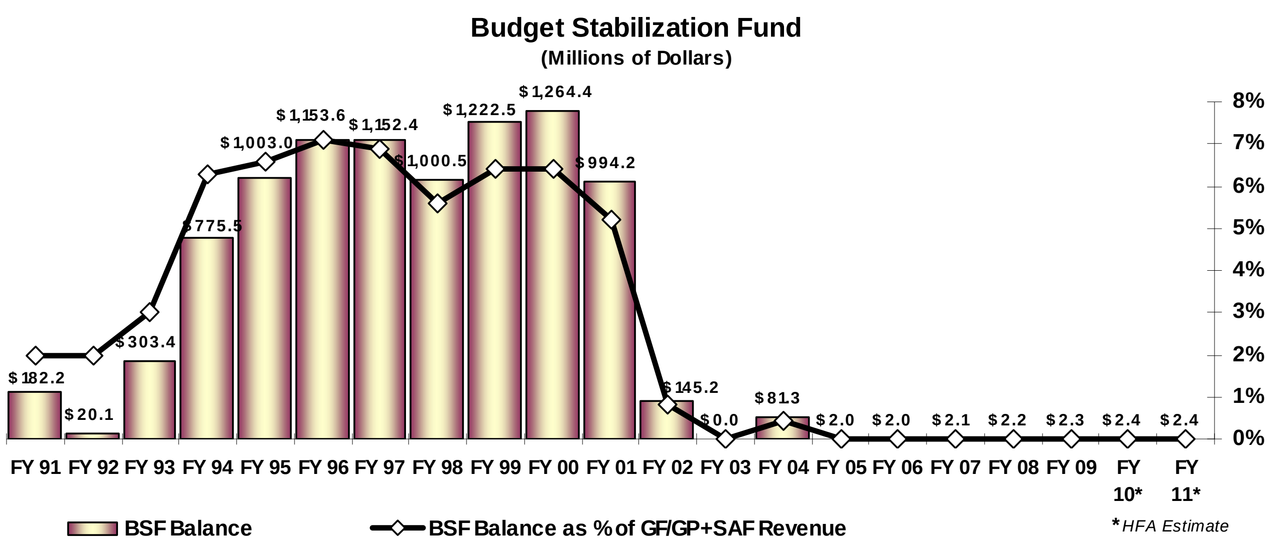
	Final FY 2008-09	Estimated FY 2009-10	Estimated* FY 2010-11
General Fund/General Purpose	$176.7	($335.2)	N/A
School Aid Fund	$238.2	$309.0	N/A
Budget Stabilization Fund	$2.2	$2.3	$2.4

Note: School Aid Fund revenue is restricted; any year-end balance is carried forward to the subsequent year.

** = FY 2010-11 budget not yet enacted.*

BSF Year-End Balance

The Counter-Cyclical Budget and Economic Stabilization Fund (BSF), the state's rainy day fund, is a reserve of cash to contribute to or withdraw from throughout economic and budget cycles. **Figure 9** shows the BSF fund balance and the BSF fund balance as a percent of total GF/GP and SAF revenue. **Table 8** details deposits, withdrawals, interest earnings, and the year-end balance from FY 1990-91 through FY 2010-11.



The BSF ending fund balance for FY 2008-09 was estimated at $2.2 million. The BSF trigger calculation—based on Michigan personal income less transfer payments adjusted for inflation and actual or net GF/GP revenue—indicates a $42.0 million withdrawal for FY 2009-10 and no pay in or withdrawal for FY 2010-11. If a withdrawal were to occur, this would reduce the estimated ending fund balance for FY 2009-10 to zero.

Table 8
BUDGET STABILIZATION FUND HISTORY
(Millions of Dollars)

Fiscal Year	Deposits	Withdrawals	Interest Earned	Balance
1990-91	$0.0	$230.0	$27.1	$182.2
1991-92	$0.0	$170.1	$8.1	$20.1
1992-93	$282.6	$0.0	$0.7	$303.4
1993-94	$460.2	$0.0	$11.9	$775.5
1994-95	$260.1	$90.4	$57.7	$1,003.0
1995-96	$91.3	$0.0	$59.2	$1,153.6
1996-97	$0.0	$69.0	$67.8	$1,152.4
1997-98	$0.0	$212.0	$60.1	$1,000.5
1998-99	$244.4	$73.7	$51.2	$1,222.5
1999-2000	$100.0	$132.0	$73.9	$1,264.4
2000-01	$0.0	$337.0	$66.7	$994.2
2001-02	$0.0	$869.8	$20.8	$145.2
2002-03	$0.0	$156.1	$10.9	$0.0
2003-04	$81.3	$0.0	$0.0	$81.3
2004-05	$0.0	$81.3	$2.0	$2.0
2005-06	$0.0	$0.0	$0.0	$2.0
2006-07	$0.0	$0.0	$0.1	$2.1
2007-08	$0.0	$0.0	$0.1	$2.2
2008-09	$0.0	$0.0	$0.1	$2.2
2009-10*	$0.0	$0.0	$0.1	$2.3
2010-11*	$0.0	$0.0	$0.1	$2.4

** HFA Estimate*
NOTE: Numbers may not add due to rounding.

Compliance With the State Revenue Limit

Article IX, Section 26 of the *Michigan Constitution,* which was approved by the vote of the people in 1978, sets a limit on the amount of revenue collected by the state in any fiscal year. As provided for in the Constitution, the revenue limit is calculated as 9.49% of total state personal income (which is the broadest measure of state economic activity) in the previous full calendar year prior to the fiscal year in which the revenues are measured.

The revenue to be considered in the revenue limit includes not only state taxes, but also fees, licenses, and interest earned. Federal aid is not included in the revenue limit calculation. Article IX, Section 26, *Constitution of the State of Michigan*, provides that:

> . . . For any fiscal year in the event that Total State Revenues exceed the limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund . . . .

Furthermore, the state is prohibited from spending any current-year revenue in excess of the limit established in Section 26 by Article IX, Section 28.

As shown in **Table 9, Figure 10,** and **Table 10**, the FY 2008-09 revenue limit calculation showed state revenue collections at $7.72 billion below the revenue limit. For FY 2009-10 and FY 2010-11, state revenue is estimated to be substantially below the revenue limit—by $8.89 billion, and $7.30 billion, respectively.

Table 9
COMPLIANCE WITH THE STATE REVENUE LIMIT
(Millions of Dollars)

Revenue Limit Calculations	**Final FY 2007-08**	**Final FY 2008-09**	**Estimated FY 2009-10**	**Estimated FY 2010-11**
Personal Income				
Calendar Year	CY 2006	CY 2007	CY 2008	CY 2009
Amount	$341,075	$345,886	$349,612	$339,219
X Limit Ratio	9.49%	9.49%	9.49%	9.49%
State Revenue Limit	**$32,368.0**	**$32,824.5**	**$33,178.2**	**$32,191.9**
Total Revenue Subject to Revenue Limit	$27,716.3	$25,105.8	$24,292.6	$24,894.9
Amount Under (Over) State Revenue Limit	**$4,651.7**	**$7,718.7**	**$8,885.6**	**$7,297.0**

NOTE: Numbers may not add due to rounding.

Figure 12
Constitutional Revenue Limit
Amount Under or Over Limit (Billions of Dollars)

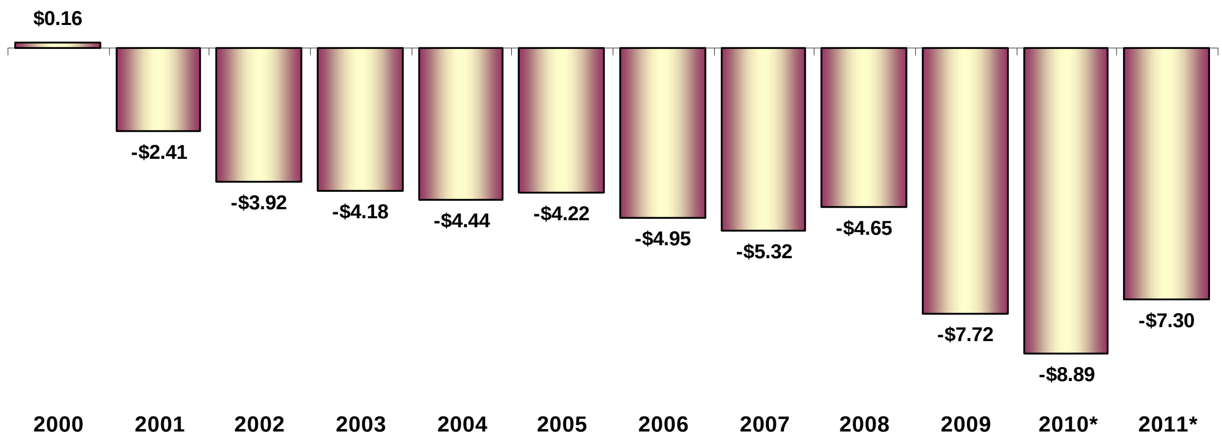


Table 10
CONSTITUTIONAL REVENUE LIMIT HISTORY
(Billions of Dollars)

Fiscal Year	(Under) or Over Limit
1990-91	($3.04)
1991-92	($3.69)
1992-93	($3.48)
1993-94	($2.11)
1994-95	$0.11
1995-96	($0.18)
1996-97	($0.98)
1997-98	($0.64)
1998-99	$0.02
1999-2000	$0.16
2000-01	($2.41)
2001-02	($3.92)
2002-03	($4.18)
2003-04	($4.44)
2004-05	($4.22)
2005-06	($4.95)
2006-07	($5.32)
2007-08	($4.65)
2008-09	($7.72)
2009-10*	($8.89)
2010-11*	($7.30)

**HFA Estimate*

Additional copies of this report can be obtained from:

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